IDAHO OUTLOOK
NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO | DIVISION OF FINANCIAL MANAGEMENT | MARCH 2003 VOLUME XXIV NO. 09

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

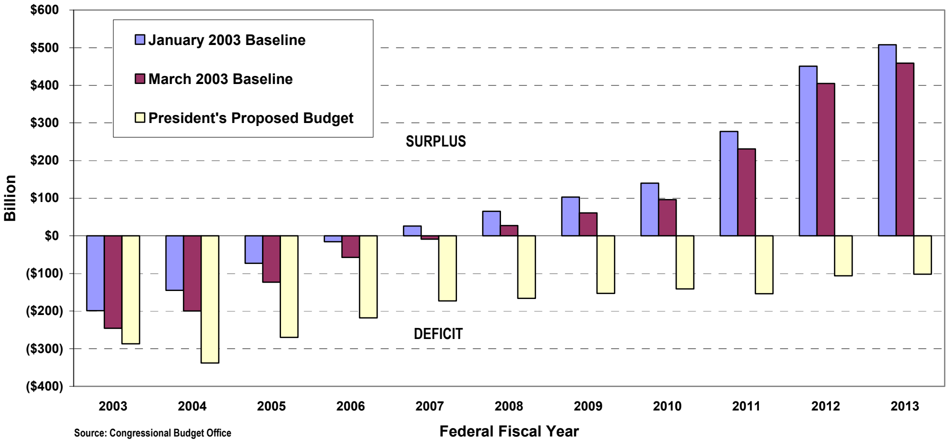
During the latter part of the last expansion, signs of economic prosperity appeared more common than billboards on Route 66. One of the signs was the federal government had finally posted a surplus after nearly three decades of deficits. This was a significant and welcomed change. In fact, the federal government's books looked so strong, some economists believed the national debt would be retired in their lifetimes. Since then economists' optimism has been undercut by the harder economic times and the return of federal budget deficits. With the old projections made obsolete by reality, it is time to look at revised projections that incorporate the more current information.

To help do this we reviewed studies produced by the highly respected Congressional Budget Office (CBO). According to the analysis it released this January, the federal government should post deficits through fiscal year 2006. These deficits should be whittled down from a high of just under $200 billion in fiscal year 2003 (its highest level since 1994) to less than $20 billion in fiscal year 2006. The national debt peaks at just over $4 trillion in 2006. However, things improve after that year. The federal budget is projected to enjoy a $26 billion surplus in fiscal year 2007. The first in what is anticipated to be an unbroken string of surpluses through 2013 that have a $1.6 trillion cumulative value. As a result of these surpluses, public debt should shrink 36.4% during the seven years from 2006 to 2013. Even though it is less than six months old, it is already out of date, and has been replaced with a forecast based on more current information.

The Congressional Budget Office published its most recent forecast and budget revision this March. It shows federal government finances have changed slightly. Specifically, the return to surpluses has been delayed from fiscal year 2007 to fiscal year 2008. From that year to fiscal year 2013, the federal government should enjoy a cumulative surplus of $1.3 trillion, which is down $300 billion from the previous estimate.
The national debt rises from $3.8 trillion in fiscal year 2003 to $4.2 trillion in fiscal year 2007 then falls gradually to $3.0 trillion in fiscal year 2013.

Another important piece of information that has become available since the January 2003 forecast was published is the President's budget proposal. As part of its March report the CBO, also analyzed the impacts of this plan that included a host of features intended to stimulate the economy. The plan's impacts are measured two ways. The first is a static analysis. In this study, the impacts of the President's plan on the economy are <u>not</u> considered. Not surprisingly, using this method CBO found the national budget posted higher annual deficits through 2013. It also estimated that from fiscal year 2004 to 2004 the budget deficits sums to $1.2 trillion. The second method employed is a dynamic projection that includes the impacts of the President's budget on the economy. Theoretically, the President's budget provisions would help the economy grow faster. This would eventually lead to higher tax revenues and lower outlays, which would lower the deficit. In order to account for these impacts CBO used two different economic models. One model showed virtually no change on the federal budget compared to the static analysis. On the other hand, the estimates based on the Global Insight model showed marked improvements over the static results. Using this model the cumulative deficit for 2004-2008 is $933 million, which is lower than the static deficit for the same period, but higher than CBO's $362 billion baseline cumulative deficit.

The Federal Budget Surplus and Deficit



DIRK KEMPTHORNE, Governor

Division of Financial Management
700 W. Jefferson, Room 122
PO Box 83720
Boise, Idaho 83720-0032 (208) 334-3900
ADDRESS SERVICE REQUESTED

Darrell Manning, Administrator

Economic Analysis Bureau
Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

PRSRT STD
U.S. POSTAGE
PAID
PERMIT NO. 1
BOISE, ID 83720

General Fund Update

As of February 28, 2003

Revenue Source	FY03 Executive Estimate[3] ($ Millions)	DFM Predicted to Date ($ Millions)	Actual Accrued to Date ($ Millions)
Individual Income tax	890.9	574.5	550.2
Corporate Income tax	81.8	50.3	38.8
Sales Tax	673.2	465.7	470.9
Product Taxes[1]	21.6	14.7	14.6
Miscellaneous	99.9	43.5	51.8
TOTAL GENERAL FUND[2]	**1,767.4**	**1,148.7**	**1,126.3**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2002

General Fund revenue was relatively close to expectations for February, coming in just $2.1 million below the month's target. Revenue for the fiscal year to date now stands $22.4 million lower than expected. Although overall February revenue was close to the predicted amount, there were some very wide swings within the various categories. Individual income tax collections were almost $12 million lower than expected, and miscellaneous revenue was over $8 million higher than expected. Fairly wide swings also occurred in the sales tax and corporate income tax.

Individual income tax revenue was $11.9 million lower than expected in February. Filing payments were $0.7 million higher than expected for the month and now stand $4 million above the year to date target. Withholding payments were $4.5 million higher than expected, closing the year to date gap to just $3.6 million. Refunds were the big source of weakness in February, coming in $16.9 million lower than expected for the month. These excess refunds appear to be mostly a matter of timing, with the high likelihood that refunds will be lower than expected later in the tax processing season.

Corporate income tax revenue was $3.1 million lower than expected in February. Filing payments were $0.1 million above target, but estimated payments were $1.8 million lower than expected for the month. Refunds were $1.3 million higher than expected in February.

Sales tax revenue was very strong in February, coming in $4.3 million higher than expected for the month, and now stands $5.2 million ahead of the year to date target. Auto related sales tax was a solid 6.9 percent above February 2002, but this does not explain the exceptional performance for the month. Strong mortgage refinancing activity (due to low interest rates) is probably a major factor in the sales tax strength.

Product tax revenue was $0.1 million above target in February. Miscellaneous revenues were $8.5 million higher than expected in February, with almost $5 million of this coming from the estate tax. The insurance premium tax was $2.7 million higher than expected, and interest earnings were $0.7 million higher than expected.